

## Minutes of the Financial Stability Oversight Council

Held July 31, 2015

### PRESENT:

Jacob J. Lew, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)  
Janet Yellen, Chair, Board of Governors of the Federal Reserve System (Federal Reserve)  
Martin J. Gruenberg, Chairperson, Federal Deposit Insurance Corporation (FDIC)  
Mary Jo White, Chair, Securities and Exchange Commission (SEC)  
Timothy Massad, Chairman, Commodity Futures Trading Commission (CFTC)  
Richard Cordray, Director, Consumer Financial Protection Bureau (CFPB) (by telephone)  
Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)  
Debbie Matz, Chairman, National Credit Union Administration (NCUA)  
Roy Woodall, Independent Member with Insurance Expertise  
Richard Berner, Director, Office of Financial Research (OFR), Department of the Treasury (nonvoting member)  
Michael McRaith, Director, Federal Insurance Office, Department of the Treasury (non-voting member)  
John P. Ducrest, Commissioner, Louisiana Office of Financial Institutions (non-voting member)  
Adam Hamm, Commissioner, North Dakota Insurance Department (non-voting member) (by telephone)  
David Massey, Deputy Securities Administrator, North Carolina Department of the Secretary of State, Securities Division (non-voting member)

### GUESTS:

#### Department of the Treasury

Sarah Bloom Raskin, Deputy Secretary of the Treasury  
Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council  
Eric Froman, Deputy Assistant General Counsel for the Council  
Mark Kaufman, Counselor to the Deputy Secretary

#### Board of Governors of the Federal Reserve System

Daniel K. Tarullo, Governor  
Nellie Liang, Director, Office of Financial Stability Policy and Research

#### Federal Deposit Insurance Corporation

Jason Cave, Special Advisor to the Chairman for Supervisory Matters

#### Securities and Exchange Commission

Nathaniel Stankard, Deputy Chief of Staff

#### Commodity Futures Trading Commission

Lawranne Stewart, Special Counsel

Consumer Financial Protection Bureau

Ron Borzekowski, Acting Assistant Director for Research

Federal Housing Finance Agency

Mario Ugoletti, Special Advisor to the Director

Comptroller of the Currency

Jennifer Kelly, Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner

National Credit Union Administration

John Worth, Chief Economist

Office of the Independent Member with Insurance Expertise

Chris Ledoux, Senior Advisor

Federal Reserve Bank of New York

William Dudley, President and Chief Executive Officer (by telephone)

Office of Financial Research

Matt Reed, Chief Counsel

Federal Insurance Office

Steven Seitz, Acting Deputy Director (Financial Stability)

Louisiana Office of Financial Institutions

Michael Stevens, Senior Executive Vice President

North Dakota Insurance Department

Mark Sagat, Counsel and Manager, Financial Policy and Legislation, National Association of Insurance Commissioners

North Carolina Department of the Secretary of the State, Securities Division

Christopher Staley, Counsel, North American Securities Administrators Association

PRESENTERS:

*Update on International Market Developments*

- *Ramin Toloui, Assistant Secretary for International Finance, Treasury*

*Update on Puerto Rico*

- *Antonio Weiss, Counselor to the Secretary, Treasury*
- *Kent Hiteshew, Director, Office of State and Local Finance, Treasury*

*Discussion of Ongoing Work Relating to Market Structure Following the Joint Staff Report on the U.S. Treasury Market on October 15, 2014*

- *Antonio Weiss, Counselor to the Secretary, Treasury*
- *Jonah Crane, Senior Advisor, Treasury*
- *Nathaniel Wuerffel, Senior Vice President, Federal Reserve Bank of New York*
- *Daniel Grey, Senior Special Counsel, SEC*
- *Sayee Srinivasan, Chief Economist, CFTC*
- *Trent Reasons, Director of Analysis, Treasury (available for questions)*
- *Charles Cohen, Deputy Director of Analysis, Treasury (available for questions)*

*Annual Reevaluations of Designated Nonbank Financial Companies*

- *Todd Cohen, Senior Policy Advisor, Treasury*
- *Steven Seitz, Acting Deputy Director (Financial Stability), Federal Insurance Office*
- *Stephen Ledbetter, Director of Policy, Treasury (available for questions)*

*Update on Review of Asset Management Products and Activities*

- *Lyndsay Huot, Deputy Director of Policy, Treasury*
- *Stephen Ledbetter, Director of Policy, Treasury (available for questions)*

## **Executive Session**

The Chairperson called the executive session of the meeting of the Council to order at approximately 10:02 A.M. (EDT). He began by noting that this was the last Council meeting for David Massey, the North Carolina Deputy Securities Administrator. The Chairperson thanked Deputy Administrator Massey for his service on the Council. The Chairperson then outlined the meeting agenda, which had previously been distributed to the members together with copies of the resolution and other materials. The agenda for the meeting included the following subjects: (1) an update on international market developments; (2) an update on Puerto Rico; (3) ongoing work relating to market structure following the joint staff report, issued on July 13, 2015, regarding the U.S. Treasury market on October 15, 2014; (4) the annual reevaluations of two previously designated nonbank financial companies, American International Group, Inc. (AIG) and General Electric Capital Corporation (GECC); (5) an update on the Council's review of asset management products and activities; and (6) consideration of, and a vote on, a resolution approving the minutes of the Council's meeting on May 19, 2015.

### **1. Update on International Market Developments**

The Chairperson introduced the first agenda item and turned to Ramin Toloui, Assistant Secretary of the Treasury for International Finance, who presented an update on international market developments related to Greece, including the ongoing negotiations between Greece and its creditors. After describing recent events, he noted that there appeared to be limited direct vectors for the transmission of the stress from Greece to U.S. financial markets. Following the presentation, members of the Council asked questions and had a discussion.

## 2. Update on Puerto Rico

The Chairperson then introduced Antonio Weiss, Counselor to the Secretary at Treasury, and Kent Hiteshew, Director of the Office of State and Local Finance at Treasury, to present on the second agenda item, an update on Puerto Rico. Mr. Weiss described Puerto Rico's obligations coming due over the coming months, efforts by the government of Puerto Rico to develop a financial plan, and market exposures to Puerto Rico. He also noted that the Treasury Department is providing advisory support to Puerto Rico. Following the presentation, members of the Council asked questions and had a discussion, including about direct and indirect exposures of various types of financial institutions to Puerto Rico.

## 3. Discussion of Ongoing Work Relating to Market Structure Following the Joint Staff Report on the U.S. Treasury Market on October 15, 2014

The Chairperson then introduced the next agenda item, a discussion of the interagency staff report, issued on July 13, 2015, regarding volatility experienced in Treasury markets on October 15, 2014. He introduced Antonio Weiss, Counselor to the Secretary at Treasury; Jonah Crane, Senior Advisor at Treasury; Nathaniel Wuerffel, Senior Vice President at the Federal Reserve Bank of New York; Daniel Grey, Senior Special Counsel at the SEC; and Sayee Srinivasan, Chief Economist at the CFTC. The Chairperson thanked staff for their work on the report and noted that it provided important clarity about events in the Treasury market on October 15. Mr. Crane then provided a brief overview of the report. He noted that the report explained that on October 15, 2014, the market for U.S. Treasury securities and related markets experienced an unusually high level of volatility and a very rapid round-trip in prices, without any clear catalyst. The report found that although trading volumes were high and the market continued to function, liquidity conditions became significantly strained. In particular, between 9:33 a.m. and 9:45 a.m. that day, the 10-year Treasury yield experienced a sharp drop and then rebound. Mr. Crane noted that, while growing pessimism about the global economic outlook and related shifts in investor positioning created the conditions that likely contributed to the elevated volatility on October 15, those factors did not explain the rapid round trip in prices. He also noted the report's focus on the evolution of the Treasury market toward electronification and the increasing prevalence of automated trading strategies in Treasury cash and futures markets.

Mr. Wuerffel then provided additional explanation of the report's key findings, noting that the market volatility had no single cause, but instead arose from a confluence of factors. He also discussed the next steps suggested by the report, including further study of the evolution of the U.S. Treasury market; continued monitoring of market practices and a review of regulatory requirements; an assessment of the data available on Treasury markets; and efforts to strengthen monitoring and surveillance and to promote interagency coordination.

Following the presentation, Patrick Pinschmidt, Deputy Assistant Secretary and Executive Director of the Council at Treasury, noted that the factors highlighted in the interagency staff report on the events of October 15 echo certain themes in the Council's 2015 annual report, which cited potential vulnerabilities arising from changes in financial market structure. He noted that the ongoing electronification of fixed income markets is redefining the ecosystem for trading across a broad array of asset classes. He stressed that while many of these changes are positive,

it is important to understand how changes in market structure may affect market functioning and the provision of liquidity. Accordingly, he noted that staff across the Council member agencies are working together to follow up on the recommendations regarding market structure in the Council's 2015 annual report. Members of the Council then asked questions and had a discussion, including about the potential implications of market structure changes for different financial markets.

#### 4. Annual Reevaluations of Designated Nonbank Financial Companies

The Chairperson then introduced the next agenda item, the annual reevaluations of two nonbank financial companies, AIG and GECC, that the Council had designated in 2013 under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Under the Dodd-Frank Act, the Council is required annually to reevaluate each previous designation and rescind a designation if the Council determines that the company no longer meets the statutory standards. The Chairperson introduced Todd Cohen, Senior Policy Advisor at Treasury, and Steven Seitz, Acting Deputy Director (Financial Stability) at the Federal Insurance Office. Mr. Cohen noted that the annual reevaluations focused on material changes with respect to the companies or their markets in which they operate and that staff had consulted with a number of the companies' state and federal regulators. He also noted that each of the companies had been invited to meet with staff and submit materials to the Council, but that neither company had requested a rescission of its designation in this annual reevaluation.

Mr. Cohen then presented the analyses and conclusions related to GECC. Among other things, Mr. Cohen noted that GECC had announced a strategic plan to reduce the size and scope of the company. He stated that these efforts are being monitored closely by staff, but that only the company's completed divestitures were considered for purposes of this annual reevaluation of GECC's designation. Mr. Cohen also noted that the Federal Reserve had issued a final order establishing enhanced prudential standards for GECC, with the requirements coming into effect in two phases, the first on January 1, 2016, and the second on January 1, 2018. After describing the staff's analyses, Mr. Cohen stated that staff recommended that the Council not rescind its final determination with respect to GECC. Members of the Council then asked questions and had a discussion, including regarding the Council's engagement with the company with respect to its announced reorganization.

Following the discussion, the Council did not rescind GECC's designation. Mr. Seitz then presented the analyses and conclusions related to AIG, including with respect to recent developments at the company. After the presentation, the Council did not rescind AIG's designation.

#### 5. Update on Review of Asset Management Products and Activities

The Chairperson then introduced the next agenda item, an update on the staff evaluation of potential financial stability risks arising from asset management products and activities. The Chairperson introduced Lyndsay Huot, Deputy Director of Analysis at Treasury, who presented on the ongoing staff efforts. Ms. Huot described the comments submitted in response to the Council's December 24, 2014, request for public comment on asset management products and

activities, including comments on liquidity and investor redemptions, securities lending, leverage, operational risk, and resolution. She explained the ongoing interagency analysis of the public comments and consideration of potential risks to financial stability. She noted that after the Council identifies and analyzes issues meriting further evaluation to determine if there are potential risks to financial stability, the Council may then consider appropriate policy measures, if applicable. After the presentation, members of the Council asked questions and had a discussion regarding the staff work.

## 6. Other Business

The Chairperson asked whether there was any other business before the Council voted on the minutes of the previous Council meeting. Richard Berner, Director of the OFR, raised the importance of sharing data among agencies and described the OFR's ongoing data-sharing initiatives, including the development of a metadata catalogue of datasets that Council member agencies have available.

## 7. Resolution Approving the Minutes of the Meeting held on May 19, 2015

*“BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on May 19, 2015 of the Council are hereby approved.”*

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

The Chairperson adjourned the meeting at approximately 11:56 A.M. (EDT).